

Broiler Farms' Organization, Management, and Performance. By Janet Perry, David Banker, and Robert Green. Resource Economics Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 748.

Abstract

This study provides a comprehensive view of the organization, management, and financial performance of U.S. broiler farms. Using data from the U.S. Department of Agriculture's Agricultural Resource Management Study (ARMS, formerly known as Farm Costs and Returns Survey), we examine farm size, financial structure, household income, management practices, and spousal participation in decisionmaking. We compare broiler operations with other farming enterprises and their earnings with that of the average U.S. household. Because most of the 7 billion broilers produced in the United States in 1995 were raised under contract, we also explore the use of contracts and the effects of contracting on the broiler sector.

Keywords: Contracting, broilers, poultry, farm characteristics, farm income, farm operator characteristics, risk management strategies.

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Summary

The poultry industry models the type of business organization that may characterize much of U.S. farming in the future. It offers a vivid example of how various participants are interrelated and dependent on one another. All segments of the industry—producers, processors, hatcheries, geneticists, nutritionists, veterinarians, suppliers, marketing firms, and consumers—have combined to transform the industry from a minor sideline enterprise into a complex agribusiness. This report provides a comprehensive view of the organization, management, and financial performance of U.S. broiler farms.

Hen and egg production were common on most farms at the turn of the century, and production was primarily for home use. Before the 1950s, most farms raised chickens, but meat was a byproduct of the egg enterprise. Today, about 12,000 specialized farms produce more than 900 million birds for meat and 72 billion eggs per year. Poultry and poultry products account for \$19.1 billion, or about 10 percent of all farm receipts. Broiler production is concentrated in the Southeast, Delta, and Appalachian regions, although broilers are raised in other regions such as California and the Midwest.

Since mid-century, the industry has moved almost completely from a home industry to one dominated by contract production. Table eggs and hatching eggs are also contracted, but we have more information about the broiler industry. Retail and processing contractors place chickens on farms and provide feed and other inputs, while the farmer cares for the chickens until they reach processing size. Broiler production accounted for 62 percent of all receipts from poultry and poultry products in 1995.

Broiler farms with sales of \$50,000 or more were in fair financial condition in 1995. Their gross cash farm income averaged \$84,048, and net cash farm income was \$32,602. Depreciation charges, affected by special tax treatment, were largely responsible for net farm income being approximately half of net cash income, at \$15,969. Broiler producers were more highly leveraged than the average farm with comparable sales. They operated well under the financial stress point, however, using only 52 to 58 percent of their available credit. With assured cash flow coming from contracted fees, most broiler producers should face few financial risks. While broiler producers have lower net farm income, they also have less invested in the business. As a group, they work fewer hours on the farm—73 percent of broiler operators who said their major occupation was farming worked 2,000 hours or more, compared with 85 percent of crop and 94 percent of livestock operators on farms of comparable sales.

Because of relatively high costs of assembling live birds for processing, many broiler operations are located near a processor through which they contract their production. Our data show that contractors pay about 15 percent of the variable costs of raising the chickens. In addition to paying these variable costs, contractors incur the costs of supplying chicks, and they pay the farmer for management and care of the birds to their maturity. Average duration of contracts with the same contractor was 9 years, with farms in the Southeast averaging 11 years. Besides satisfaction with the contract (farmer and contractor), this evidence of continuity suggests that contractors need to have a steady,

reliable supply of broilers, and that farmer-supplied resources tend to be immobile.

An interesting point about broiler producers is the involvement of spouses on the farm. On average, spouses were more heavily involved in decisionmaking and management, and worked more hours, on broiler farms than on other farms with comparable sales. Because many decisions are made through a contract, broiler producers reported using few production management strategies to manage risk, and when they used financial and marketing strategies, their use was at a lower rate than that of other farm operators. When they sought information about strategies, they often turned to their financial advisors and contractors.

Three-quarters of the broiler producers said that their major occupation was farming. These operators' household income was 78 percent of the average U.S. household's income, largely due to lower off-farm income. Broiler producers are more likely to be younger than the average U.S. farmer and their average educational level is lower. Many broiler producers live in rural areas where employment opportunities are already few, and low educational attainment usually translates to even fewer off-farm income opportunities, making the broiler operations more important to the households. Because the calculation of farm household income is sensitive to treatment of depreciation, care should be taken when comparing incomes of households that might have large depreciation expenses. When farming was not the operator's major occupation, and broilers were a part-time venture, their income was about the same as that of the average U.S. household. The wealth of broiler producers, full-time or part-time, is largely composed of farm-related assets.